



Patrick W. Henning, Director



Arnold Schwarzenegger  
Governor

September 24, 2008  
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Ms. Felicia Flournoy, Workforce Development Administrator  
Riverside County Economic Development Agency  
Workforce Development Center  
1151 Spruce Street  
Riverside, CA 92507

Dear Ms. Flournoy:

WORKFORCE INVESTMENT ACT  
FISCAL AND PROCUREMENT REVIEW  
FINAL MONITORING REPORT  
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Riverside County Economic Development Agency's (EDA) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Stacy Corrales and Mr. TG Akins from March 24, 2008 through March 28, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by EDA with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of EDA a review of applicable policies and procedures, and a review of documentation retained by EDA for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on September 3, 2008, and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed finding 1 and 2 cited in the draft report, and no further action is required at this time. However, these issues will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 80154 and 80155.

## **BACKGROUND**

The EDA was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, EDA was allocated \$4,270,298 to serve 495 adult participants; \$4,404,434 to serve 370 youth participants; and \$3,554,961 to serve 405 dislocated workers participants.

For the quarter ending December 31, 2007, EDA reported the following expenditures and enrollments for its WIA programs: \$1,413,322 to serve 360 adult participants; \$825,849 to serve 274 youth participants; and \$1,422,231 to serve 244 dislocated worker participants.

## **FISCAL REVIEW RESULTS**

While we concluded that, overall, EDA is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: Monitoring of subrecipients, and single audit resolution. The findings that we identified in these areas, our recommendations, and EDA's proposed resolution of the findings are specified below.

### **FINDING 1**

**Requirement:** 20 CFR Section 667.410(a) states, in part, that each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors.

WIAD00-7 states, in part, that the monitoring of subrecipients follow a standardized review methodology that will result in written reports which record findings, any needed corrective actions, and due dates for the accomplishment of corrective actions. Additionally, the monitoring of subrecipients require systematic follow-up to ensure that necessary corrective action was completed.

The EDA's Policies and Procedures 17-01, requires, in part, that within 30 days of receipt of the response to a monitoring report, a

letter of sufficient or insufficient response be issued to the service provider.

The EDA's Policies and Procedures 17-01, provides sanctions for a service provider that fails to respond to a monitoring report.

The EDA's Policies and Procedures 17-01, requires, in part, that monitoring reports include a review and status of findings, recommendations, and corrective actions from the previous monitoring review, if applicable.

**Observation:** We observed that for PY 2006-07, EDA failed to issue a letter of sufficiency or insufficiency in response to subrecipient Arbor Indio's monitoring response and CAP. Also, subrecipient Moreno Valley Unified School District (MVUSD) failed to provide a CAP in response to the monitoring report, but we saw no evidence that EDA implemented any of the available sanctions. Finally, EDA failed to follow-up on issues at Arbor Perris, Arbor Indio, Young Men's Christian Association (YMCA) of Riverside County, and MVUSD.

For PY 2007-08, the monitoring report for YMCA Rubidoux had no due date for providing a CAP, nor a date for completion of corrective actions. Finally, PY 2007-08 monitoring reports for Arbor Indio, Arbor Perris, and YMCA of Riverside County did not address the status of the previous years' issues.

**Recommendation:** We recommended that EDA provide a CAP, including a time line, explaining how it will follow all monitoring requirements, including:

- provide specific due dates for corrective actions,
- issue sufficient or insufficient letters,
- implement sanctions for subrecipients that fail to respond to findings,
- follow-up on findings, and
- address previous years' issues in its monitoring reports.

**EDA Response:** The EDA provided a Program Compliance Review Checklist to be used by staff in order to ensure a systematic follow-up procedure in meeting all monitoring requirements within the appropriate timeframes. This checklist includes all monitoring requirements as listed above. The EDA stated that the checklist will be implemented immediately for all future monitoring reviews.

**State Conclusion:** The EDA stated corrective action should be sufficient to resolve this issue and no further corrective action is required. However, we cannot close this issue until we verify, during a future onsite visit, EDA's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80154.

## **FINDING 2**

**Requirement:** 20 CFR 667.500(a) states, in part, that a State must utilize the audit resolution, debt collection and appeal procedures that it uses for other Federal grant programs. If a State does not have such procedures, it must prescribe standards and procedures to be used for this grant program.

The U.S. Department of Labor's One-Stop Comprehensive Financial Management TAG Part II Chapter 12 states, in part, that each awarding agency below the Federal level that awards funds to lower-tier subrecipients is responsible for the resolution of findings in the audits of their subrecipients.

WIA Directive WIAD05-17 states, in part, that subrecipients that award WIA funds to lower-tiered subrecipients must have the following:

- Initial Determination Letter that includes whether the costs are allowed or disallowed, including the reasons with appropriate citations; possible sanctions; and the opportunity for informal resolution of no more than 60 days from the date of the Initial Determination.
- Final Determination Letter that includes summation of the informal resolution meeting, if held; questioned costs allowed and the basis for allowance; demand for repayment of the disallowed costs; description of the debt collection process, and the status of each administrative finding.

**Observation:** We reviewed the single audit of EDA subrecipient YMCA of Riverside County and noted findings that, while not WIA specific, could affect WIA funds. Specifically, the Single Audit for YMCA of Riverside County cited 13 issues, 11 of which reflect systemic weaknesses, including internal control, expenditure, allowable payroll, and cash control, which could affect WIA funds.

We next reviewed the combined Initial/Final Determination Letter sent to YMCA of Riverside County. The letter should have been issued as an Initial Determination. Because the letter was issued as an Initial/Final Determination Letter, it included the status of the previous years' findings, an element of a Final Determination, but it did not include Initial Determination elements, such as possible sanctions and the opportunity for informal resolution of no more than 60 days from the date of the Initial Determination Letter.

**Recommendation:** We recommended that EDA provide CRD with a CAP, including a timeline, to ensure that, in the future, it follows its single audit resolution policy, including issuing separate Initial and Final Determination Letters where there are single audit findings that could impact WIA funds. We also recommended that the CAP include how EDA will ensure that the Initial Determination letter include all of the requirements of WIAD05-17.

**EDA Response:** The EDA stated that they will revise and separate the Initial and Final Determination Letters for all future audits to ensure compliance. Additionally, if administrative findings of non-compliance and /or question cost are identified in the audit, EDA will issue an Initial Determination Letter to the service provider, with a copy to the auditor.

**State Conclusion:** The EDA stated corrective action should be sufficient to resolve this issue and no further corrective action is required. However, we cannot close this issue until we verify, during a future onsite visit, EDA's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80155.

### **PROCUREMENT REVIEW RESULTS**

We concluded that, overall, EDA is meeting applicable WIA requirements concerning procurement.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than October 17, 2008.

Please submit your response to the following address:

Compliance Monitoring Section  
Compliance Review Division  
722 Capitol Mall, MIC 22M  
P.O. Box 826880  
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is EDA's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain EDA's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-7005 or Ms. Karen Fuller-Ware at (916) 653-4174.

Sincerely,



JESSIE MAR, Chief  
Compliance Monitoring Section  
Compliance Review Division

cc: Jose Luis Marquez, MIC 50  
Daniel Patterson, MIC 45  
Georganne Pintar, MIC 50  
Lloyd Saito, MIC 50